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AUTHOR March, Michael S.
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ABSTRACT

Although Colorado's present budget system has protected the state from deficit spending, it has not kept up with the additional management requirements caused by post-World-War-II developments. The problems with the current system focus on the roles of the general assembly and the governor as well as on the areas of the institutional budgetary process, long-range planning, budgetary confusion and lack of control, accountability, and program evaluation. The suggested principles on which to base improvement of the budgetary process and the suggestions for implementation of reform focus on these problem areas while laying emphasis on improved relations between the governor and the general assembly and on strengthening the institutional budgeting process. (Author/IRT)

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# THE COLORADO STATE BUDGET STUDY

## An Evaluation with Proposals for Improvement

by Michael S. March, PhD

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# PREFACE

This report has been prepared as a public service by a task force of the Colorado Chapter of the American Society for Public Administration (A.S.P.A.) in cooperation with the Colorado League of Women Voters (L.W.V.), the Colorado Citizens Committee on Government (C.C.C.G.), and the Graduate School of Public Affairs of the University of Colorado. The task force was chaired by Professor Leo C. Riethmayer, Director of Public Administration in the Graduate School. Its other members were: Maxine Kurtz, President of the Colorado Chapter of A.S.P.A ; Hellen Rogers, representative of the Colorado L.W.V.; and Robert D. Hubbard Chairman, C.C.C.G.

The research for the study was largely done by over 40 students of the Graduate School, who conducted interviews and wrote term papers on topics assigned by Michael S. March, Professor of Public Affairs. Dr. March, who has spent nearly 30 years as a professional in budgeting, assumed most of the task of summarizing and interpreting the available research for this report. Hellen Rogers and Adie Cohen of the L.W.V. provided valuable editorial assistance.

The following graduate students wrote term papers on a broad range of topics relating to Colorado State budgeting: Raj K. Ahuja, Lynne S. Alberts, Vernard F. Bond, III, Amelie A. Buchanan, Joan D. Cady, John W. Crisfield, Kyle E. Davis, William J. Dennehey, James K. Donaldson, Fred W. Elliott, Lawrence R. Ferguson, John M. Gunyou, Christopher M. Hegg, Gail L. Homerding, Willie F. Jeffries, Gerald J. Kopecky, John T. Leary, Curtis M. Long, John P. Maley, Steve L. Mansanares, Kay E. Maune, Brian R. McMahon, Robert C. Middaugh, Jr., Robert B. Morse, James H. Mullen, Vincent M. Murzinski, John P. Nagle, Thomas L. O'Melia, Jr., Michael L. Poritz, Ruth A. Rodriguez, Wilbur S. Sanchez, Richard H. Shannon, Anne Marie Sheppler, Susan R. Smith, Linda S. Snyder, Dorothy A. Stevens, Irene A. Tesitor, Elaine E. Weaver, Ray S. Wells, Barbara L. Widick, Mark N. Williams, Robert L. Winslow, and Gary A. Zarlengo.

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## Executive Summary

### Findings

1. The present budget system has protected the State from deficit spending.

2. The budget system has not kept up with the additional management requirements caused by these post-World-War-II developments:

   a. Fast population growth;

   b. Widespread changes in the kind and magnitude of problems confronting the State;

   c. Rapid increase in State programs--both in scale and in diversity; and

   d. Great influx of federal grants.

3. The State budget system is unable to meet these increased demands because of:

   a. Absence of any structure to set State-wide goals, objectives, and priorities;

   b. Absence of any State-wide mechanism for identifying and analyzing problems, for developing programs to meet these problems, and for evaluating how well authorized programs are performing;

   c. Absence of any State-wide system for allocating resources to attain the goals and objectives, or for directing the use of federal funds which might be obtained for these purposes;

   d. Absence of systematic, long-range planning to permit phased attainment of major programs within anticipated financial resources; and

   e. Absence of mechanisms for effective public accountability in the budget-making and fiscal control processes.

### Recommendations

An improvement effort must be comprehensively planned so actions can be taken in proper sequence, will require a sustained 5-year program, be jointly sup-

ported by the Governor and the General Assembly and meet their respective needs, be given additional funds for computerized management information systems and planning and analytical staffs in the Executive Branch and be built on a foundation of improved institutional processes in the Executive Branch and between the Executive and Legislative Branches. The effort will take a good deal of trust, some additional appropriations, and at least five years. It will probably be doomed if instant performance is demanded.

Perhaps the most concrete step would be for the General Assembly to enact a State Budget and Financial Systems Improvement Act which might include the following main elements:

1. The requirement that the Governor develop and timely submit to the General Assembly for its review and appropriate action:

   a. A biannual State Goals Report factually assessing State needs, laying out long-range alternatives and recommended goals, objectives and priorities, analyzing available fiscal resources, etc. (First report due in 3 years to permit interim testing of process in Executive Branch.)

   b. An annual State Fiscal and Economic Report projecting 5-year expenditures and revenues under existing laws and policies in some detail with an analysis of their socio-economic implications. (First one due in 2 years.)

   c. An annual State Budget reflecting a revised comprehensive presentation and recast into a program/performance mold. (First one due in 3 years.)

   d. Periodic Program and Performance Effectiveness Evaluations of major State programs. (On a recurring schedule, say every 5 or 7 years and starting in two years on a staggered basis.)

   e. Annual Performance and Progress Reports by each major State agency and by the Governor. (Starting in 2 years.)

2. Authorization for the Governor, in consultation with the General Assembly to undertake a phased 5-year effort, including necessary reorganization, in the Executive Branch to:

   a. Create the institutional planning, budgetary and analytic capabilities and processes to produce the above products and reports on a factually solid, coordinated basis.

   b. Develop the revised accounting, statistical, and budgetary information systems needed to support this overall improvement program and to serve both the Legislative and the Executive Branches.

3. Creation in the General Assembly of machinery to address the new Executive Branch reports. One of the most important new elements would be a Joint Committee on State Needs, Goals, and Priorities which would report to all the existing Committees in both chambers on recommended State priorities and long-range proposed expenditure and revenue measures to achieve them.

# I. INTRODUCTION

The *State budget* is a program and financial plan for future expenditures and anticipated revenues. It sets State priorities and is a major tool for policy and financial control by the Chief Executive and by the General Assembly. It can serve as a key instrument for achieving a more effective, better managed and more responsive State government in Colorado.

The *State budget system* must serve both the Chief Executive and the General Assembly in discharging their respective, yet closely linked, Constitutional functions. Even more important, it must serve the people of the State of Colorado, both as taxpayers and as recipients of public services and benefits. A good budget system shapes present-day policies in the context of future-year problems and needs.

The Colorado State budget system has been improved by various changes in the last two decades, but it offers large opportunity and potential for future improvements to meet present public management requirements.

## A. Trends Affecting the Colorado Budget

Rapid growth in the population of Colorado and in the complexity of State affairs during the last two-and-one-half decades has severely challenged the machinery of State government. Between 1950 and 1976 the population of Colorado has doubled from 1.3 to 2.6 million. Colorado has changed from a predominantly rural State to an urbanized State. Growth has vastly increased tax resources, but it has engendered many new environmental and human problems.

With accelerating technological and social change, public problems on many fronts have become interdependent and complex. The quality of life in Colorado generally and the economic welfare of substantial segments of the population have become heavily dependent on the expenditures and services of the State government. In every session of the General Assembly, there are numerous and urgent demands for new or enlarged State programs which are far in excess of available revenue growth under present taxes.

In response to State needs the overall State budget in current dollars has grown from about $150 million in fiscal year 1950 to an estimated $1.98 billion in 1976-77, an increase of 13 times in 27 years. When translated into real or constant dollars the growth still is substantial. Aggregate expenditures, stated in 1967 dollars, rose about 4.5 times from 1950-1975.

When adjusted both for inflation and for population growth, real expenditures per capita (in 1967 dollars) rose nearly 2.3 times, from

$157 in 1950 to $359 in 1975. However, there is evidence that in the period 1973 to 1975, per capita real outlays were lower than the peak of $386 reached around 1972. This recent decline resulted from a combination of high inflation and budget restraints.

The "doubling period" for the budget has been getting shorter. It took 10 years for the budget to double from $150 million in 1950 to $324 million in 1960, 9 years to double after 1960, and less than 6 years to grow from $686 million in 1969 to $1,514 million in fiscal 1975. (Note: Figures are rough estimates because State reports do not present a consistent series on a common basis.) The recently enacted budget for 1976-77 totals about $1.98 billion--an increase of about $470 million in two years if all the appropriated amounts are spent.

Colorado State government has also become increasingly wrapped up in intergovernmental fiscal relations since 1950. The present State budgetary machinery faces a virtually overwhelming task of securing and effectively managing funds from the approximately 1,000 available Federal grant-in-aid and assistance programs. At the same time, the cities, counties and school districts are increasingly dependent on appropriations from the State and on the equitable application of taxes levied or regulated by the State.

## B. Constitutional Budget Provisions

The Colorado State Constitution makes clear that the supreme *Executive* power is vested in the Chief Executive and the *Legislative* power is vested in the General Assembly. Under the Constitutional division of powers, the Governor shares in policy making. The Governor clearly has the authority to make recommendations in such messages as he wishes and he must report to the Legislature regarding expenditures and also make recommendations regarding revenues to cover expenditures. Legislative enactments through the years suggest it has been the intent of the General Assembly that the Governor exercise strong initiative in preparing the budget and this is even clearer with respect to the execution of the budget.

The language in the Constitution relating to appropriations conveys no extraordinary powers to the General Assembly. The Legislature is empowered to receive reports and to enact appropriations, but the formulation of the Executive branch budget is not vested in the Legislature.

## C. The Executive Role in the Budget Process

In general, Colorado government has been characterized by an absence of strong Executive leadership. The Governor for years was confronted with up to 150 agencies, each headed by an employee covered by civil service. During this time the Governor could appoint almost no policy level officials anywhere in the State structure.

In 1968 the State Constitution (Art. IV, Sec. 22) was amended to require reorganization of the State government into not more than 20 departments, the heads of which are appointed by the Governor, subject to Senate confirmation, and serve at the Governor's pleasure. Even so, the

structure of the executive branch remains very fragmented. Procedures are not in force for effective coordination of policies and programs by the Chief Executive.

In the executive branch the budgeting function has never been strong. As early as 1916 a Survey Committee of State Affairs of Colorado, composed of legislators and citizens, reported that the Governor played only a minor part in the budget-appropriations process (except for some vetoes) although he had adequate powers, constitutional and statutory, to prepare an Executive budget.

The Budget Act of 1919 established an executive budget system, in which agencies were required to submit their budget estimates to the Governor, who could reduce their requests. A State Budget and Efficiency Commissioner also was created to assist the Governor. Commissioners prior to 1939 were political and turned over frequently. The office was thinly staffed and budgeting was treated largely as an accounting task.

From 1947 to 1968, the State budgeting function was vested in the Accounts and Control Division. This accentuated the accounting flavor of State budgeting, a legacy which still persists. The budgets were "compiled" rather than "programmed."

Beginning in 1968 the budgeting function in the executive branch has been reorganized frequently. It has been lodged in the Governor's Office (1968), in a separate Executive Budget Office (1970), in the Department of Administration (1972), and in the Office of State Planning and Budgeting (1974). In the 1973-74 period an unsuccessful effort was made to shift to program budgeting, an effort which recently was discontinued.

In the Executive branch the central budgeting functions currently are divided among three units:

--The Office of State Planning and Budgeting (OPB), which coordinates the preparation of the executive budget. This office has employed about 60 people, of whom some 23 have been in planning and budgeting. All but 3 or 4 of these latter employees have been in the Division of Budgeting; the additional staff work on capital budgeting and other tasks. The Legislature has reduced total OPB strength to 56.5 FTEs for 1976-77 by transfers, elimination of vacant positions, and curtailing planning staff.

--The State Controller, heading the Division of Accounts and Control, who oversees the decentralized State accounting systems in the 120 governmental units and prepares the accounting reports upon which budget execution and control are based. This unit has a staff of around 45 persons, including some 10 CPAs.

--The Colorado Commission on Higher Education (CCHE) which has carried on planning and budget review functions for higher education. (The role of CCHE will be sharply changed by Joint Budget Committee cuts in its 1976-77 budget and is not discussed in this study.)

In addition, the Governor's Revenue Estimating Advisory Committee of qualified experts advises both the Governor and the Joint Budget Committee of the General Assembly. The professional approach to revenue estimating appears to be well ahead of the procedures for planning and programming of expenditures.

## D. The General Assembly Role in the Budget Process

The Colorado General Assembly has long had some kind of a joint committee to cope with work on appropriations and finances. For many decades, even back to 1893, this was an informal arrangement. From 1915 to 1959 there existed, without much change, a Joint Subcommittee on Appropriations, although it was not recognized in law. It held budget hearings, wrote the "Long Bill," and estimated revenues. As early as 1956, a few full time staff members were authorized for this Subcommittee.

In 1959 the Joint Budget Committee (JBC) was formally created by law, thereby codifying past practices. The JBC has increasingly garnered power since then. To date, the Colorado budget system can be described as legislatively dominated, primarily by the JBC.

The JBC has six members, including the chairmen of the House and Senate Appropriations Committees. The chairmen of the Appropriations Committees alternate in heading the JBC.

The JBC has a dozen staff members. It holds budget hearings, drafts the "Long Bill," and inquires into the performance of State agencies. The "Long Bill" is the bill in which the General Assembly appropriates the funds to be expended for the next fiscal year.

## E. The Auditing Function

The Legislative Audit Committee (LAC) of the General Assembly exercises post-audit functions, including a few performance audits of the State agencies. Prior to 1964 these functions were in the Executive branch.

The Office of the State Auditor, which is headed by a person appointed by the General Assembly, makes the actual audits or contracts for audits. This Office has nearly 70 staff, including 37 Certified Public Accountants (CPAs), about twice the number of CPAs in the Executive branch.

## F. Strengths of Present System

Although the policy-making machinery of the State as a whole, and the key component of the budgetary system in particular, has not kept pace with public needs and State agency management problems, the State has important assets and achievements in its financial and budgetary management. These include the following:

--The outstanding achievement of the State of Colorado in maintaining financial solvency, as required by the Constitutional provisions virtually prohibiting deficit spending. In contrast with budgetary and debt problems experienced in some other governmental jurisdictions, this is a sterling performance.

--A high public dedication and willingness to work very hard by many members of the State's General Assembly, by officials in the Executive branch, and by their staffs.

--An evident desire to improve State organization and performance, as demonstrated by creation of units such as the Colorado Legislative Council, the Joint Budget Committee, and the State Office of Planning and Budgeting. These organizational improvements have been accompanied by a gradual influx of more professionally trained and experienced personnel into the State government, although the numbers fall far short of needs.

Real effort to improve the organization for budgeting has been exerted and tangible progress has been made. These achievements are an indication of the greater and broader progress that could be made toward improving management of the State's planning and budgeting functions, at modest cost, if a systematic effort were made jointly by the Governor and the General Assembly.

# II. ANALYSIS OF STATE BUDGETARY PROBLEMS

The functioning of a State budget system depends on good organization, planning and evaluation, and an up-to-date accounting and statistical reporting system with adequate classifications. On these criteria the Colorado system tends to be handicapped. The key problem is that the State of Colorado has been trying to use governmental concepts and machinery little changed from the pre-World War II period to cope with problems with 21st century implications.

In the face of rapid budgetary growth, Colorado's budget problems include: an inadequate institutional budgetary process budgetary fragmentation, and lack of control over the State budget. More specific budgetary problems are discussed under seven major headings below.

## A. An Inadequate Institutional Budgetary Process

The heart of effective budgeting is a well-organized process for determining program effectiveness and setting priorities in a democratically responsive manner. Constitutionally-based Executive-Legislative cooperation is necessary for a process where institutional roles are exercised in a systematic, orderly manner.

The Colorado budget process is, at present, not conducive to good planning, the setting of priorities, or a fostering of genuine governmental effectiveness. As it now exists, it is poorly scheduled within the Executive branch and between the Executive and Legislative branches; lacking in processes for orderly preparation, review, and transmittal of information and subjected to unilateral, individual or partisan actions which disorganize the process and subject the people working in the budgetary process to unnecessary time pressures which reduce the quality of their products.

Other deficiencies of the system are: an absence of a budget planning phase and of a program evaluation phase; lack of attention to broader goals, objectives and priorities, including lack of annual public hearings on overall long-range fiscal and budgetary policy and priorities; lack of real two-way communication, trust and mutual cooperation between budgetary review agencies and the State agencies; a lack of adequate agency appeal opportunities, although the JBC has improved on this score in the last year or so; an inadequate development of the State's accounting and statistical reporting system to support the budgetary system and provide adequate progress reporting; separate and uncoordinated reporting systems for personnel expenditures and for FTEs, so figures are often inconsistent or unavailable for budget use; inadequate public scrutiny of the budget process; an over-reliance in the agencies on accountants to the exclusion of other professionals with analytical competence.

## B. The Executive Role

In a properly organized budget process the Executive will submit a finished, coordinated budget for the Legislature to review, and the Legislature will focus its review on the Executive's proposals. Colorado lacks a genuine executive budget process to enable the Governor's budget recommendations to be submitted to the General Assembly on a timely, comprehensive and performance-justified basis.

Recent Governors of Colorado have failed to develop a genuinely institutional budget process within the Executive branch. Despite increasing of staff since 1970 in the State Office of Planning and Budgeting, the Governor's role in budgeting is weak. The Executive branch budgetary process is poorly organized and lacks full two-way participation and communication between the Governor's OPB staff and the agency heads and staffs.

The dialogue is inadequate for the achievement of genuine Executive branch consensus in the planning and preparation of the Governor's budget. The resulting Executive budget is therefore neither the agreed upon product of the entire Executive branch nor a document fully and mandatorily supported by every agency in presentations to the General Assembly.

There appears to be adequate authority for the Governor to create a more orderly and collaborative budget process in the Executive branch and also to require agencies to support his budget. Agency heads whom he appoints likewise have authority to control the budget processes of their agencies, although their powers to transfer or remove uncooperative sub-agency personnel may be circumscribed by civil service rules.

Currently the Governor does not exercise effective budgetary discipline over State agencies because they often are not adequately brought into executive decisions on their budgets, and, moreover, they recognize that *de facto* budgetary power is presently being exercised by the JBC. The JBC undercuts the Governor's role by going directly to the agencies for additional information and by disregarding the Governor's budget or his draft "Long Bill."

Colorado State government lacks a significant, professionally trained planning and analytical staff for comprehensive assessment of State needs and problems, long-range planning, policy development, and program analysis and evaluation. The recent action by the Governor to coordinate planning in the physically-oriented agencies is a step forward, but the process needs to be broadened and equipped with staff.

State agencies also are inadequately staffed with professionally trained, multi-disciplinary staffs for program analysis and evaluation, budgeting and financial management. Agencies also lack systems analysis and expense funds for development of requisite computerized management information systems. Excessive reliance on accountants for budgeting has tended to deny agencies the needed skills of economists, program analysts, operations researchers, and trained public administration generalists.

Both agency and Executive budgets are inadequately justified and presented. The Executive budget lacks meaningful overall program analytic classifications and is mostly presented by agencies, with breakdowns by sources of

funds (e.g., general fund, capital fund, "augmenting revenues"--meaning cash funds and grants-in-aid.) The presentations are not clear because there is no set definition of what the State budget total or the "Long Bill" should contain. Nor does the budget contain useful statistics or financial analyses of how the State budget expenditures and taxes affect the State. Among these analyses would be overall classifications by: program categories; objects; geographic areas (e.g. counties); recipients of State funds (local governments, individuals, corporations, etc.); socio-economic class (e.g., income class); beneficiaries and taxpayers; the economic character of the outlays, etc. Missing also are 5-year projections of expenditures and revenues to provide perspective for the immediate year budget decisions.

Most agencies do not justify their requests with statistical measures of need, with workload, productivity and unit cost data, or with performance, impact or benefit/cost statistics. Little constructive leadership and technical assistance has been given the agencies by the Executive budget agency in developing such presentations and most of them lack the trained professionals to do these tasks. The budget instructions of the State tend to stress accounting data rather than statistical performance data. Some 17 different forms are required, but they do not produce a performance budget.

## C. The General Assembly Role

The natural fragmentation of the General Assembly into committees and its preoccupation with specific bills encourages an incremental, disjointed approach to State needs and programs. Studies by the Interim Committees tend to be the most organized planning process, but these are generally topical in nature. The General Assembly has not equipped itself with a committee and staff to assess overall State needs and priorities in a long-range context. Rapid change in the number and scale of problems has overwhelmed the existing machinery of the Legislature. As a result, the Legislature has lost effective control over the State budget as an instrument for setting priorities to meet new needs and for achieving genuine economy.

Within the General Assembly, the Joint Budget Committee holds the major responsibility for writing the appropriations bill (the "Long Bill"). For many years, especially before the "short" sessions, the JBC has tended to schedule its hearings before the Governor's budget is completed, at times as early as October. This means that it reviews "raw" agency requests, rather than an Executive branch program coordinated by the Governor and his staff.

The 120 State agency units submit budgetary requests along with some 45,000 pages of budget justification which is difficult for the JBC to review adequately. In practice, the JBC tends to rebuild agency budgets from scratch and to scatter the "Long Bill" into some 2000 "line items." It tends to bypass recommendations of both the Governor and the cabinet heads. Instead, the committee often deals directly with subordinate officials of the State agencies as it builds the State budget *de novo* line-item-by-line-item.

This downward-focused review process tends to be lacking in perspective and to emphasize budget cutting instead of focusing on meeting State needs by setting and programming for goals and objectives. There seems to be no organized, analytical process for setting meaningful interprogram and interagency priorities for the overall budget or for determining factually the relative benefits of public *vs.* private expenditures.

At times the JBC has given only 9-month appropriations. It also writes detailed footnotes within the "Long Bill" to restrict expenditures to approved programs. It uses these methods in an effort to demand better performance from State agencies. Its demands for "performance" by State agencies have at times been constructive, but also at times, appear to be mere stratagems to justify budget cuts and JBC incursions into what is more properly the Governor's administrative domain as Chief Executive. There is no systematic, properly staffed and funded program for helping the agencies to develop genuine performance budgets and to achieve high level effectiveness.

The power of the JBC seems to rest on its compact membership, the strong personalities who are appointed to it and their willingness to work long and hard, and on its staff capability. Its staff has tended to be able, but to turn over rapidly and hence to couple inexperience and a single-minded dedication to "cutting the budget" as ordered by the JBC members rather than to bring broad vision to the process.

The JBC tends to be critical of the lack of effective control over the budget by the Executive. This lack of management control over budget execution--as well as formulation--is one reason for assumption of a greater JBC role in State budgeting. The JBC members stress the need for realistic budgeting by the Governor.

The JBC has made solid achievements. It has proved to be a staunch guardian of the State Treasury and has carefully adhered to the principle in the Constitution that State general fund borrowing is essentially forbidden. However, in endeavoring to exercise detailed budgetary jurisdiction over the State government, the JBC has not produced an effective State government.

Within the General Assembly the budget product by the JBC is being increasingly challenged. Some 150 amendments were proposed to the 1976-77 "Long Bill," although many of these were generated by JBC members. There have been suggestions in the General Assembly that its machinery for the annual budget needs overhauling, including a restructuring of the JBC and its roles. There is also concern about the paucity of adequate and timely financial reports to the Legislature--and this problem has recently come under active study.

## D. Long Range Planning Deficiencies

Factual assessments of State needs and long-range planning are essential pre-conditions of good budget formulation. Without assessment of unmet needs and good planning, good public priorities are not likely to be set.

The State of Colorado does not at present have an effective, comprehensive process for assessing and analyzing State needs and for developing planned

goals and objectives to meet those needs within the State's revenue capacity. Both the Governor's staff and the JBC conduct budget reviews without adequate attention to long-range goals and overall expenditure priorities. Neither holds public hearings on overall State needs, and possible alternative State fiscal and budgetary policies. Neither appears to address overall State tradeoffs between revenues and expenditures. Instead, both review budgets on an agency-by-agency, line-by-line, even position-by-position basis.

The net effect of these defects is to close the budgetary process to meaningful public inputs on broad State budgetary policies and priorities. There is no real assurance that present or proposed new expenditures are being directed to the most urgent needs.

In Colorado long range planning and planned action are the only possible way to recapture control over the overwhelmingly large part of the budget which is now frozen from effective annual control by mandatory commitments or earmarked funds. However, the overall planning capacity of the State government is extremely limited. The State Office of Planning and Budgeting has only 3 or 4 staff engaged in planning, and they are, at times, diverted to other short-range tasks. The Governor has recently announced action to coordinate physical planning, but the staff resources for this effort are very limited. The Division of Planning in the Department of Local Affairs is largely concerned with technical assistance to local governments. It is fair to state that there is very little Executive guidance and coordination for agency planning.

The Colorado Legislative Council does a fine job of assisting the Interim Committees of the Legislature to make studies. But most of these studies are *ad hoc* and fragmented.

## E. Budget Confusion and Fragmentation; Lack of Control

There is no clearly defined concept for the Colorado State budget. The people, and probably the State officials, are confused by differing, partial tabulations and reports. The budget presentations are not consistent with the accounts and classifications kept by the State Controller.

The budget is treated also as a bookkeeping document. It does not contain useful analytic tabulations on a comprehensive basis, for instance, by programmatic categories, by geographical areas such as cities and counties, by socio-economic or ethnic groups, or even by conventional object and character classifications. Moreover, for specific agencies and programs, it is largely devoid of program performance and impact statistical measures and in many cases even of work load and unit cost indicators.

Even as an accounting report, the Colorado State budget is lacking in clear definitions of concepts. Expenditures (accrual, cash, or both), encumbrances, and appropriations tend to be mixed up in reporting to the public. Clear distinctions are not made in the budget between appropriations and expenditures, even though the two stages are far from synonymous. The totals contain duplications because some interfund transactions are counted twice. There is confusion about the meaning of the so-called surplus and it is not computed comprehensively for all funds. Linkages between the

annual surplus and changes in the State Treasurer's balances are not presented. The accounting system fails to yield timely and accurate data, especially for timely budget preparation and for analytical purposes. There is no governmentwide program structure and other analytical tabulations are not made. The size and the economic and social impact of the State budget has gone far beyond the point where mere bookkeeping data suffice. The State must enter a more analytical phase in its budget reporting.

Actually, no unified Colorado State budget exists in any real, functional sense. The State's budgetary resources are scattered among many separate "funds" which are governed by different statutes. The funds are treated as compartmentalized accounting, and even as independent management, entities.

The Joint Budget Committee's *Appropriations Report* for 1976-77 indicated that expenditures of $1,982 million had been authorized.*

By far the most attention in this overall total is focused on the "general fund" portion (*i.e.*, financed from general taxes) which totalled $887 million. The press often reports this as if it were "The Budget."

The "capital construction fund" of $24 million, which receives proceeds both from general taxes and from other sources, is not integrated with the agency operating budgets, so a clear picture is not readily available in this respect.

Another block of so-called "cash funds," comprising agency receipts from tuition and other charges, totalled $281 million in the annual appropriation accounts. This part is often little noticed in reports to the public.

In addition, some $364 million of Federal grants are listed in the 1976-77 "Long Bill." The dependence of the State on Federal grants-in-aid for more than one-fourth of its funds is a significant influence. Grants are controlled by Federal agencies and often are awarded too late in the State's budget cycle for effective review by either the Governor or the General Assembly. The fragmentation of Federal grant-in-aid programs makes State budgeting very difficult. Moreover, the General Assembly can legally appropriate only a fraction of all the Federal grants the State agencies receive, and most are not programmed in any meaningful way by the Governor. The $30 million of Federal revenue sharing funds is subject to appropriation.

Finally, some $396 million in "continuing appropriations" were omitted entirely from the "Long Bill." These are programs of the Department of Highways, Department of Labor and Employment, Department of Higher

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* The figures from the JBC's report are used in this section because they are the most recent and most comprehensive set available. The JBC report for 1975-76 showed a total of $1,783 million, although this was subsequently changed by amendments both cutting and increasing the appropriations.

Education and other agencies which are funded by earmarked State taxes or Federal grants. "Continuing appropriations" are not reviewable by the legislators in the annual budget process and are given only perfunctory review by the Governor.

The fragmentation of the budget into special "funds" restricts the State's ability to shift funds freely, because they become prematurely earmarked and compartmentalized, contrary to accepted principles of sound public finance.

The blocks of the general budget which are "locked in" through statutory or overriding political commitments, Constitutional provisions, or Federal laws and regulations, not only destroy budgetary flexibility in the budget base, but also consume much of the annual revenue growth. Rough estimates suggest that three-fourths of the "general fund" portion of State expenditures are governed by fixed commitments. When grants-in-aid, continuing appropriations, and appropriations of "cash funds" are thrown in, probably around 90 per cent of the entire State budget is for fixed or nondiscretionary expenditures.

When the great bulk of the annual revenue growth increment is eaten up by inflation and these fixed commitments, there is little left for discretionary use.

## F. Accountability Problems

Governmental accountability to the public through complete disclosure at all times is the best safeguard against both public waste, inefficiency or corruption and ineffective or inequitable expenditure of taxes. The State of Colorado falls short of this criterion on several major counts:

--The annual budget document is lacking in comprehensibility, clarity and essential data for full disclosure. For 1976-77, the Governor did not actually issue a true budget document. The JBC *Appropriations Report* comes the closest to presenting some sort of comprehensive and understandable tabulation, but it, too, is not a full, integrated report, since it covers appropriations rather than expenditures.

--The State accounting system is promising, but less than adequately developed. It was reoriented in the early 1970s, and is still in the process of improvement. The system has been decentralized and heavily dependent on generally inadequate accounting systems of 120 State units. Financial reports issued to the public by the agencies or by the State Controller fall far short of standards for public reporting suggested by the National Committee on Governmental Accounting and the Municipal Finance Officers Association.*

* National Committee on Governmental Accounting, *Governmental Accounting, Auditing, and Financial Reporting*, Cushing-Malloy, Inc., Ann Arbor, Michigan, 1974.

These reports should contain (a) specific and comprehensive planning data on proposed budgets and their long range implications, (b) comprehensive financial reports on expenditures and revenues, and (c) statistical data on actual State performance and achievements against previously publicly stated goals and objectives.

The Governors, for more than a decade, have not issued a true State annual report or yearbook on operations and achievements. A number of State agencies issue no overall annual report. The State Controller is by law responsible for annual reporting, but these responsibilities have been delegated to agencies and no effective follow-up occurs.

The State's budgetary *processes* also contain practices which are at variance with open and objective public consideration of public finances:

--State agencies are not given timely, clear and adequate instructions by the OPB and the JBC on what information they are to provide and in what precise form they are to provide it. Budget instructions may not arrive until the summer (when they are really needed in the spring); the forms are largely geared to accounting data rather than to performance statistics, the OPB and JBC have not worked with agencies in specifying what specific performance statistics are to be provided and in what standard formats. Redundant or different requests are often made by the OPB and JBC, despite formal efforts to coordinate on instructions. Both OPB and JBC staffs demand much supplementary information, often under very short deadlines, and most of this information does not become available to the public.

--Agencies often have not been given advance notice by the OPB or the JBC of questions and issues about which they are to be questioned in the budget hearings--although recently some efforts have been made in this direction by the JBC. Witnesses in some hearings are not given an opportunity to make their explanations.

--Also, agencies are often not given copies of OPB and JBC staff analyses used by those review agencies to reshape agency budgets and such papers are not made available to the general public. Errors or untested assumptions are thus not subjected to scrutiny or correction.

## G. Inadequate Program Evaluation

No one really controls the Colorado State budget; currently neither the Governor nor the Joint Budget Committee has the statutory power or the information system for effective control. The State budget is growing by a process of piecemeal accretion, while ongoing activities and programs in the budget "base" are not being thoroughly reexamined.

While the State of Colorado spends a good deal of money for its budgetary and financial agencies, none of these structures have an effective responsibility for planning and establishing clear goals or objectives for the

State, of developing alternative program proposals to meet these goals or objectives, or of conducting evaluations of the effectiveness of agency programs in the context of State goals.

Although the people of Colorado should be assured that they are getting at least a dollar's worth of services for each dollar of taxes, the analytic capabilities of the Executive branch in Colorado are wholly inadequate to make such analyses. With an exception here or there, trained, qualified analysts are very few in number and the data bases are inadequate for progress and performance reporting and for cost/benefit or impact analysis of agency programs. Where planning or research staff do exist, their outputs may not be well related to the budget process.

More effective government for Colorado requires enhanced policy analysis capability for the Chief Executive of the State. The problems of impending energy development, sprawling growth, environmental degradation, unbalanced transportation systems, inequities in the State's tax system, intergovernmental fiscal inequalities, fragmented service delivery systems, socio-economic disparities among and within counties and cities, impacts of future population growth, and many other topics require skilled analysis and assessment and the development of coordinated policies and action programs in a future context.

It is helpful, but not sufficient, in these areas to have topic-by-topic studies by contract organizations outside the government's policy and operating orbit. Such studies tend to be comparatively costly and to leave the State government without the follow-through capability which is available when regular staff do the analysis. The State agencies and the Governor's office should have, at the barest minimum, the capacity to integrate such information into the continuing flow of decisions about policy, budgets and operations. The ongoing evaluations should also feed back into the planning process.

The most certain way to obtain their money's worth for the State's taxpayers is to measure the efficiency and effectiveness of programs and illuminate their socio-economic and environmental effects. Performance reporting on programs, the analysis of their socio-economic and geographic impacts, and benefit/cost analysis are all means of measuring the worth of public programs in relation to tax costs. Lack of professional analytic capabilities, particularly in the operating agencies of the State, is one of the principal management and budgetary deficiencies of Colorado State government. Such capabilities also are limited in the State Office of Planning and Budgeting.

In the General Assembly there are substantial resources, but they are not all used productively. The staff of the JBC tend to turn over rapidly and to be used for budget cutting rather than for balanced analysis. The studies of the Colorado Legislative Council are the most balanced and forward-looking. The Legislative Audit Committee has about 70 personnel at its disposal, almost entirely accountants, and including some 37 CPAs. While this Committee alone employs twice the CPAs available to all the rest of the State government, its output tends to consist mostly of retrospective audits, which often come too late to do much good. While it has produced some "performance audits," they have been largely by

contract firms at high cost because the Committee does not have multi-disciplinary staff equipped to analyze the performance of complex programs.

On the whole, relatively speaking, Colorado programs are over-audited and under-analyzed. A cost/benefit analysis should be made of the relative benefits of auditing as compared to improved program evaluation and better management information system capabilities in the agencies.

# III. SUGGESTED PRINCIPLES FOR IMPROVING THE COLORADO STATE BUDGETARY SYSTEM

Weaknesses in the Colorado budgetary system represent a serious management gap in Colorado State government. Fortunately, most of these deficiencies are correctable, given these three conditions:

1. A spirit of genuine Executive-Legislative cooperation, hewing to proper Constitutional roles. Under present-day conditions in which the solutions to public problems are interlinked and complex, only the Chief Executive with the full resources of an Executive branch and a year-round assessment-planning-programming process can be expected to develop a coordinated, long-range budget program. Part-time Legislative committees can hardly develop coherent policy and program proposals. But adequately staffed and fully-justified proposals from the Chief Executive to the General Assembly can strengthen and magnify the exercise by the General Assembly of its Constitutional role of setting State policies by enacting laws and appropriations, and exercising oversight over the administrative branch.

2. A willingness by the Chief Executive of the State to develop improved institutional capability and processes in the Executive branch, and especially in the agencies, for improved planning, budgeting and program evaluation. This would enable the Governor to prepare and deliver to the General Assembly an adequately planned Executive budget which is presented comprehensively, and delivered on time in the fall for full JBC hearings. Given an adequate institutional process, even gubernatorial transitions should not unduly upset the making of the State budget.

3. A willingness by the Chief Executive and the JBC to invest additional State resources in upgrading staffs and management information systems of the Executive branch, especially in the agencies. The emphasis should be on the planning, budgeting, program analysis, and financial and statistical activities. A 5-year step-by-step plan might be jointly approved by the Executive and the General Assembly and designed to serve the needs of both for improved information and improved decision-making

regarding the State's budget and revenue plans, proposals and performance. The General Assembly can benefit materially from better information from the Governor and the agencies on their financial and program operations.

It is proposed that this Colorado State Budgetary Improvement Program follow seven suggested principles for good State budgeting and financial management:

## 1. An Orderly Institutionalized Budgetary Process

Principle: An orderly institutionalized budgetary process should be developed with clear written instructions and data formats; provisions for genuine timely two-way communication and interaction, and time tables which provide for phased, cooperative participation by the State agencies, the Governor's office and the General Assembly; and a clearly defined division of labor between the Governor and the General Assembly in keeping with their co-equal Constitutional roles and institutional capabilities.

Recommendations: The achievement of a better-integrated and more orderly institutional process for State planning, budgeting and performance evaluation requires a number of steps:

a. Review of the various recommendations in this report and their introduction step-by-step into an institutional process which can gradually be improved.

b. The assumption of leadership by the Governor for this improvement process in the Executive branch, where most of the improvement will have to take place if a better process is to be developed.

c. Establishment of a clearer division of responsibility in the budgetary area between the Chief Executive of the State and the General Assembly, a division which will properly respect the co-equal Constitutional functions of each and will be built on an attitude of mutual cooperation in the interest of the general welfare of the people of Colorado.

## 2. An Executive Budget

Principle: The Governor's leadership role in managing the multi-faceted and complex Colorado State budget should be strengthened by placing on him clearly specified responsibilities for planning and developing the State budget and its execution under the Constitution and the laws enacted by the General Assembly.

Modern concepts of effective public program and resource management suggest four key principles which relate to the role of the Chief Executive:

a. The budget is a key instrument of administrative management both in the setting of priorities and in the attainment of economical and effective government.

b. The Chief Executive of the government should be in charge of formulating the government's budget, because

only he can exercise sustained supervision over and draw effectively upon the agencies for the information and knowledge which they have.

c. To perform his job properly in the goal and priority planning and budgetary arena, the Chief Executive needs an adequate, professionally-trained and well-organized staff capability, directly responsible to him, through which he can exercise policy and managerial control over the agencies of the State pursuant to the Constitution and the laws enacted by the Legislature.

d. The Chief Executive has the duty fully to inform the General Assembly and its committees regarding his budget requests and State agency financial and program operations by submitting such reports and information as the General Assembly may require.

Recommendations: To achieve a stronger leadership role by the Chief Executive in the Colorado State budgeting process, the following steps are suggested:

a. Assumption of an active leadership role by the Governor, with appropriate prior consultation with the General Assembly, to implement those proposals in this report which may be determined to be useful and appropriate.

b. Strengthening of the capability of the Governor to improve and institutionalize the budget process in the Executive branch by reorganizing and better coordinating the staffs now available to him in the Office of Planning and Budgeting, in the Department of Administration, in planning units of State agencies, and in the Governor's office. The Office of Planning and Budgeting has some 56 positions filled by able people who could be harnessed into a well organized planning and budgeting process with a good financial reporting system to draw upon. The OPB should coordinate its work more thoroughly with that of the State Controller, so the Controller's figures become the starting points for the budget. The accounting systems in the agencies should be subject to direction by the State Controller and the classification system should be improved to permit program category and performance category presentations as well as other special studies, *e.g.*, by income level, by county, by recipient group.

c. Adoption by the Governor of a long-range planning perspective for budgeting, with a corresponding strengthening of analytic staffs in the agencies and in the OPB. More emphasis on priorities and long-term goals is much needed--along with an orderly, fact-based process to do this.

d. Clarification--by positive example, by negotiated agreement, by statute, by court litigation, or by Constitutional amendment, as necessary--of the Constitutional division of authority and responsibility for budgeting, in its several stages, between the Chief Executive and the General Assembly to give the Governor an undisputed leadership role in budget development and execution as befits a modern Chief Executive of a State.

e. Assumption of firm Executive responsibility for preparation of a fully coordinated and realistic budget for submission to the General Assembly on time, after full opportunity for agency appeals, adequate control over budget execution, and a requirement that agencies must support the Executive budget.

g. Elimination by statutory or Constitutional changes of all permanent or continuing appropriations--so in the future 100 per cent of the budget will be subject to annual review.

## 3. Effective Policy Review and Oversight by the General Assembly

Principle: The General Assembly should give priority to strengthening and broadening its policy and performance review of the State budget and existing and proposed programs based on the recommendations it receives from the Governor, and it should direct the Governor to prepare and submit completed State plans, budgets, and performance evaluations to enable the General Assembly to discharge well its Constitutional functions of enacting laws and appropriations and exercising oversight over State administrative performance.

In addressing its key policy planning and budgetary responsibilities, the General Assembly might find its effective capacity substantially strengthened by taking account of the following concepts:

a. Policy planning--the concept that some effort spent in developing well devised long range policies and priorities may contribute more to effective State government than much effort at planless budget cutting.

b. The Governor as chief information provider--by instructing the Chief Executive in specific terms by law to develop and submit long-range State plans and goals, program/performance budgets, program evaluations, and the like, the General Assembly can greatly enhance its own Constitutional role of enacting well-considered laws and appropriations.

c. The importance of institutionalized processes--accurate financial and program information takes time and money to develop and the General Assembly will be serving its own objective of obtaining desired accurate data and government economy if orderly and regular institutional arrangements are developed between the Chief Executive

and the General Assembly for the development, delivery and review of budgets, plans, program evaluations, annual reports, and the like.

d. The key role of management information systems and analytic capacity in Colorado government--of real concern to the General Assembly and to the Chief Executive should be the underdeveloped capacity almost generally in the State government to develop requisite factual information for policy management and to analyze the difficult policy and program management problems confronting the State.

e. Constitutional separation of powers--aside from technical or legal questions, the division of functions whereby the Chief Executive develops information and policies and the General Assembly reviews his submissions and disposes of them represents a good division of effective capabilities necessary for democratic policy formulation.

Recommendations: The General Assembly and its Committees should respect the Constitutional separation of powers between the Chief Executive and the General Assembly and should also strive within this guideline to improve the Legislative performance on budget review by taking the following actions:

a. The General Assembly should require the Governor to submit a timely, comprehensive and well-justified program/performance budget set in the context of long-range goals and fiscal projections. The budget should cover *all* funds and programs, including those financed by grants-in-aid and continuing appropriations, and should present data meaningfully through use of multiple classifications. Then the General Assembly and its Committees should base their review of State budget needs on the Governor's submissions.

b. The General Assembly, through the JBC, should require the Governor to submit this budget before it begins its hearings and should establish an orderly budget review process for appearances by the Governor and his staff and by the State agencies, including advance provision of questions and full opportunity for statements by the Executive branch officials as well as public release, in advance of hearings, of JBC staff budget analyses.

c. The JBC should join with the Governor in sponsoring the development of improved accounting and management information systems in the various State agencies under a joint plan worked out between the Governor's office and the JBC. Such systems should be based in the agencies but should be centrally shaped and directed so they can provide appropriate overall progress and analytic

reports to the Governor and the General Assembly as well as to the public. The accounting classifications should be improved and expanded to provide more data for budget impact analysis.

d. The General Assembly should develop capability to review unmet needs, long-range goals and policies, inter-agency and inter-program priorities, and performance evaluations of State agencies. For this purpose, an appropriate committee of the General Assembly, perhaps one with cross-committee memberships, should annually hold broad-gauge hearings on overall budget priorities and how they meet or do not meet State needs.

These changes would strengthen the General Assembly in policy formulation, and would improve the functioning of the JBC in its review of the annual budget.

## 4. Long Range Planning

Principle: The policy and budget formulation process in Colorado should be the outgrowth of a comprehensive long-range planning process centered in and involving all the key agencies of the Executive branch, but also reaching out into the regions of the State.

Recommendations:

a. A well coordinated, comprehensive problem assessment and planning process, staffed with well-trained professional analysts from various disciplines, is essential to correct present deficiencies and to provide a coherent, long-range framework for setting State government priorities.

b. The State planning process should include the preparation of strategic plans, setting of broad goals in the context of assessment of State needs, preparation of program development plans, laying out of specific program goals and objectives, and projections of fiscal and budget plans for at least 5-year spans.

c. The assessment and planning process should be institutionalized. It should involve two-way interaction between the Governor's office and the State agencies. Each major agency should create a planning process to set goals and objectives, but the priorities should be integrated for the whole government by the Governor. There should also be widespread consultations by State officials throughout the State, both in the needs identification initial phase of the planning process and on draft goals.

d. The outputs of the planning process should be communicated fully and publicly by the Governor to the General Assembly. This might be given tangible manifestation

by the preparation and submission by the Governor each year of a report on Colorado State needs, resources, goals and priorities. Such a report might (1) summarize the statistics on State problems and needs, including presentations of statistical indicators on the economic, social, and environmental condition of the State; (2) analyze the composition and impact of the State expenditures and tax system by geographic, socio-economic, programmatic and other analytic dimensions; (3) project State revenues and alternative expenditure programs for 5 years ahead; (4) outline comprehensively alternative 5-year goals and objectives within the available resources; and (5) recommend specific priorities for the next 5 years based on State agency and gubernatorial staff analysis.

e. The General Assembly might enact appropriate legislation in due time specifying with precision what reports are to be submitted and what they should contain, *e.g.*, 5-year projections by categories of expenditures and revenues. It should also hold hearings on needs, priorities, resources and performance as compared to goals and objectives.

## 5. Budget Clarity and Comprehensiveness

Principle: Adoption of a clearly defined and integrated budget concept which assures comprehensiveness, completeness and clarity of presentation, along with a sufficiency of pertinent analytical data.

Recommendations: The Governor, in cooperation with the JBC, should develop, publish and implement clear definitions for a comprehensive, integrated and readily understandable budget which:

a. Is comprehensive--covers all funds and revenue accounts, including all grants-in-aid and ancillary or auxiliary activities.

b. Presents the budget in several documents, each geared to the needs of different users. These might range from a budget-in-brief for the public (one was prepared for 1975-76) to a detailed program/performance document for the JBC, perhaps with appendices to provide the performance statistics.

c. Is converted from a bookkeeping document to a program/performance budget with a full range of analytical cross-classifications and performance indicators.

d. Uses clear, consistent and analytically-valid accounting concepts, *e.g.* differentiates clearly between appropriations and expenditures.

e. Is carefully controlled for quality of data and objective and understandable presentations.

f. Utilizes an improved, consolidated appropriations structure geared to agency management needs, and is

accompanied by a draft "Long Bill" embodying the new structure and providing appropriation language meeting the needs of both the Chief Executive and the General Assembly. Each agency should likewise provide appropriation language, with a "cross-walk" from budget to "Long Bill" categories. Budget figures should be consistent with the State Controller's figures.

## 6. Accountability

Principle: Full public accountability should be the guiding principle in all budgetary and financial and program management activities of the State of Colorado and its agencies.

Recommendations: To achieve more adequate public accountability on State finances and State performance, the following specific suggestions are offered:

a. Publication and timely public distribution and library deposit each year of complete and adequate budget documents.

b. Opening up to the general public the information and analyses on which the State review agencies base their budget and tax decisions. One big step would be the institutionalization and publication of the analyses which the OPB and the JBC now make out of agency or public sight and which constitute the *de facto* basis for most budget cutting of agency requests. The listing of questions in advance, disclosure to the public and most certainly to the agencies of staff analyses which are now secret and unscrutinized, and the public display of all supplementary data obtained from agencies by the OPB and JBC could be a healthy step toward public accountability by these review agencies. Some disclosure is now made, but it is haphazard and incomplete. More disclosure would help raise professional standards in these key agencies.

c. Publication and deposit in State archives and libraries of adequate annual performance reports by the Governor and each State agency as against prior goals and plans.

d. Performance evaluation, on some regular multi-year cycle, of all agency programs by competent, multi-disciplinary professional staff analysts and the publication and distribution of such reports to State libraries.

e. Presentation, publication and public distribution of more adequate State financial reports.

## 7. Continuing Program Evaluation

Principle: A strong program evaluation capability should be developed in the Executive Agencies of the State to analyze the effectiveness and equity of State programs and the State tax system.

Recommendations: Public confidence in the State government demands that State policies and programs be evaluated periodically and, ideally, continuously, to determine their effectiveness and their equity. The following steps are suggested toward this end:

a. Program evaluation units should be created in the various agencies and staffed with qualified program analysts from various disciplines.

b. The analytic staffs in the Governor's office and the State Office of Planning and Budgeting should be strengthened to provide leadership for the agencies on program evaluation and policy assessment and to carry out analytic tasks which cut across agency lines.

c. The management information systems of the State government should be improved to provide the statistical, financial and program data base that is required for quantitative measures of workloads, unit costs, performance measures, impact indicators, and for analysis of program cost/effectiveness and equity as indicated by the income, age, ethnic, geographical and other characteristics of the beneficiaries and taxpayers.

d. The State budget should be converted as rapidly as possible from being merely a financial document to a program/performance budget with statistical measures of program outputs, impacts and effectiveness. The Governor should charge the Director of the State Office of Planning and Budgeting to move in this direction in appropriate consultation with the Joint Budget Committee and the Legislative Audit Committee and in regular two-way communication with the operating agencies.

e. State evaluation processes should focus on evaluating programs from the beginning and as they operate, rather than waiting to conduct post-performance audits when it is too late to stop the waste. Evaluation should be conducted as much as possible by built-in agency staff analysts rather than by high-cost contract personnel from private research agencies. Evaluation should be a continuous process as much as possible and State programs should be evaluated completely every 4 or 5 years on a planned cycle.

f. All evaluations by the State agencies and the General Assembly should be published and copies should be deposited in the State Archives and in the principal libraries of the State.

g. The Committees of the General Assembly should hold periodic hearings with each agency on the progress and the findings of evaluations and the findings should be brought to bear in the enactment of appropriations and new laws.

# IV. SUGGESTIONS REGARDING IMPLEMENTATION OF BUDGETARY REFORM IN COLORADO

Conditions in Colorado State government which augur well for a major budgetary improvement effort in Colorado have been noted in the body of this report. They include strong evidences of a desire for improvement in both the Legislative branch and the Executive branch, plus dedication to hard work and fiscal soundness.

Real budgetary reform, however, will not come easily because a number of factors in the governmental environment of Colorado present obstacles to constructive change in the budgetary system of the State of Colorado:

a. Organizational weaknesses, particularly in the Executive branch.

b. Inadequate institutional processes for policy planning and budgeting.

c. Lack of trained, multidisciplinary professional staffs in the agencies in the areas of planning, budgeting, and program analysis.

d. The absence of strong financial, statistical, and management information systems to serve the needs of the Governor and the General Assembly in monitoring adherence to established policies.

There are also some attitudinal problems which prevail in various quarters even though they may not be universally accepted:

a. The theory that the General Assembly should dominate the budget process by engaging in detailed preparation of the budget and reaching into detailed budget execution.

b. A philosophic view of budgeting as being essentially naysaying, rather than being a rounded, rational process for allocation of scarce resources to maximize the public wellbeing.

c. A tendency to go along with the annual budget process as a sort of annual catharsis involving contentious, *ad hoc* decisions--rather than seeing it as one stage in an orderly, long range planning and policy management process

leading to integrated policies and priorities and effective oversight of administration.

d. The related lack of a comprehensive philosophy and systems concept for improving the policy and budgetary management of the State.

e. Insensitivity to the need for full, factual reporting to the public on governmental costs, performance, and benefits.

f. A tendency, especially in the JBC, to make pennywise savings in money for management systems and staff in the agencies, while the budget and State programs progressively get out of control for lack of these capabilities in the Executive branch.

g. An inadequate conception of the role of the Chief Executive as planner and policy developer.

The net effect of these factors has been the development of a serious management gap in the State government. Action to remedy this deficiency in governmental machinery will be more likely to succeed and to be effective if heed is paid to the concepts that:

a. Achievement of genuine improvement in the budgetary performance of the State of Colorado at this stage depends very much on harnessing planning technology to bring a futures perspective to decisionmaking, management and information systems technology to improve management control and financial control, and program analysis to achieve greater efficiency and effectiveness of programs. Better policies and better priorities, as well as better program performance, are all key ingredients of real governmental efficiency, economy and effectiveness.

b. A fundamental improvement in the budgetary system to incorporate planning and program analysis and good reporting systems will require a sustained 5-year effort. Any effort to produce "instant change" will be cosmetic, produce confusion, and be likely to fail, as was the case with program budgeting in the early 1970s. Changes in procedure and in administrative climate can be made in shorter periods, but they, too, require planning. The development of better financial information and statistics normally takes several years at the least.

c. A successful budgetary systems change effort in Colorado will have to be a joint effort having full, long-range support by the General Assembly and by the Governor and his staff. Both branches have needs which the new system must meet; both must make inputs into the effort if it is to be carried out and be economical; both must be fully consulted; and both must cooperate fully. For instance, an effort by the Legislature to computerize

budget information would be wasteful and duplicatory if it did not also serve the Executive branch's needs. On the other hand, the Executive branch cannot mount an information systems improvement effort alone, because the General Assembly must appropriate money for systems specialists and computer equipment. The logical place for leadership in budgetary improvement is in the Governor's office.

d. Any consequential and lasting improvement effort will first have to be planned on a comprehensive, long-range basis. Such a plan will have to focus on elements such as the following:

--The desired outputs of the new system--the needs assessment and planning reports, the 5-year fiscal projections, the revised budget format, the program evaluation reports, etc.

--The major building blocks and processes of the new system and how they phase together in time, *e.g.*, the needs assessment and planning processes, 5-year fiscal and priorities plans, changes in budget submission and hearing dates, building of staffs for policy and program evaluation, changes in data systems, etc.

--Development of a firm, comprehensive definition of the budget and of the accounting and statistical data classifications which should be included in it to fit into a planning/performance orientation toward budget development and control.

--Design and phasing of changes in the accounting and computer systems to produce the data needed for the new process.

--Changes in procedures and relationships under the new process--and training efforts to harness multi-disciplinary staffs fully.

e. The broad gauged and balanced design of the planning-budgeting-evaluation system is a sensitive and difficult task, because it should be tailored to the needs and desires of the policy managers of the State of Colorado in both the Executive and Legislative branches. The development process might well take into account some lessons from prior budget improvement efforts in Colorado and from other efforts to improve public budgeting systems:

--The lesson that over-elaborate, hardware oriented systems are very costly and tend to break down because of their complexity and the weight of paperwork.

--The difficulty of finding prepackaged systems that can be transplanted successfully to a different environment and the risks that are run in buying proprietary systems that the State does not have trained people to operate and reprogram.

--The absence of a really good State budget system in the United States--leading to the conclusion that the Colorado State improvement effort should be preceeded by reviewing the best features of systems in other States such as Pennsylvania, Hawaii, Wisconsin, Vermont, Florida, Washington, Oregon, South Dakota, and Michigan, and then developing a Colorado system with the aid of a technical advisory group.

f. Execution of a long-range improvement plan can in part utilize existing people and resources, if they are organized better and reoriented to new priorities--but there must also be a firm, multiyear commitment to funding for additional multidisciplinary professional staffs and related systems development expenses. Good management costs money--but such cost is likely to be but a fraction of the waste of taxpayers' money which results from poor priorities and deficient public management systems and processes. In this light, it is hard to conceive of a system which it is more important to get up to par than the State budget system.

Perhaps the most concrete step would be for the General Assembly to enact a State Budget and Financial Systems Improvement Act which might include the following main elements:

a. The requirement that the Governor develop and timely submit to the General Assembly for its review and appropriate action:

--A biannual State Goals Report factually assessing State needs, laying out long-range alternatives and recommended goals, objectives and priorities, analyzing available fiscal resources, etc. (First report due in 3 years to permit interim testing of process in Executive Branch.)

--An annual State Fiscal and Economic Report projecting 5-year expenditures and revenues under existing laws and policies in some detail with an analysis of their socio-economic implications. (First one due in 2 years.)

--An annual State Budget reflecting a revised comprehensive presentation and recast into a program/performance mold. (First one due in 3 years.)

--Periodic Program and Performance Effectiveness Evaluations of major State programs. (On a recurring

schedule, say every 5 or 7 years and starting in two years on a staggered basis.)

--Annual Performance and Progress Reports by each major State agency and by the Governor. (Starting in 2 years.)

b. Authorization for the Governor, in consultation with the General Assembly to undertake a phased 5-year effort, including necessary reorganization, in the Executive Branch to:

--Create the institutional planning, budgetary and analytic capabilities and processes to produce the above products and reports on a factually solid, coordinated basis.

--Develop the revised accounting, statistical, and budgetary information systems needed to support this overall improvement program and to serve both the Legislative and the Executive Branches.

c. Creation in the General Assembly of machinery to address the new Executive Branch reports. One of the most important new elements would be a Joint Committee on State Needs, Goals and Priorities which would report to all the existing Committees in both chambers on recommended State priorities and long-range proposed expenditure and revenue measures to achieve them.